

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, Second Extraordinary Session;
and Chapter 1118, Statutes of 1987

July 1, 2007, through June 30, 2011



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 17, 2014

Karen Schwarz, President
Board of Trustees
San Mateo County Community College District
3401 CSM Drive
San Mateo, CA 94402

Dear Ms. Schwarz:

The State Controller's Office audited the costs claimed by the San Mateo County Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, Second Extraordinary Session; and Chapter 1118, Statutes of 1987) for the period of July 1, 2007, through June 30, 2011.

The district claimed \$1,548,010 for the mandated program. Our audit found that \$1,000,709 is allowable (\$1,020,709 less a \$20,000 penalty for filing late claims), and \$547,301 is unallowable. The costs are unallowable primarily because the district overstated salaries and benefits, overstated services and supplies, understated authorized health service fees, and understated offsetting savings/reimbursements. The State paid the district \$406,739. Allowable costs claimed exceed the amount paid by \$593,970.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Ron Galatolo, Chancellor

San Mateo County Community College District

Kathy Blackwood, Executive Vice Chancellor

San Mateo County Community College District

Raymond Chow, Chief Financial Officer

San Mateo County Community College District

Christine Atalig, Specialist

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Mateo County Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, Second Extraordinary Session; and Chapter 1118, Statutes of 1987) for the period of July 1, 2007, through June 30, 2011.

The district claimed \$1,548,010 for the mandated program. Our audit found that \$1,000,709 is allowable (\$1,020,709 less a \$20,000 penalty for filing late claims), and \$547,301 is unallowable. The costs are unallowable primarily because the district overstated salaries and benefits, overstated services and supplies, understated authorized health service fees, and understated offsetting savings/reimbursements. The State paid the district \$406,739. Allowable costs claimed exceed the amount paid by \$593,970.

Background

Chapter 1, Statutes of 1984, Second Extraordinary Session, repealed Education Code section 72246 which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year for FY 1987-88 and for each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, Second Extraordinary Session, imposed a "new program" on community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year for FY 1984-85 and for each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87; requiring them to maintain that level in FY 1987-88 and for each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on August 27, 1987, and amended them on May 25, 1989, and January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist community college districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2007, through June 30, 2011.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the San Mateo County Community College District claimed \$1,548,010 for costs of the Health Fee Elimination Program. Our audit found that \$1,000,709 is allowable (\$1,020,709 less a \$20,000 penalty for filing late claims) and \$547,301 is unallowable.

For the fiscal year (FY) 2007-08 claim, the State paid the district \$26,350. Our audit found that \$220,869 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$194,519, contingent upon available appropriations.

For the FY 2008-09 claim, the State paid the district \$380,389. Our audit found that \$178,891 is allowable. The State will offset \$201,498 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2009-10 and FY 2010-11 claims, the State made no payment to the district. Our audit found that \$600,949 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on February 21, 2014. Kathy Blackwood, Executive Vice-Chancellor, responded by letter dated March 4, 2014 (Attachment), agreeing with the audit results for Finding 1, partially agreeing with the audit results for Finding 2, Finding 5, and Finding 6 and is not disputing the audit results for Finding 3 and Finding 4 at this time. As stated in its response to the draft audit report, the district provided additional supporting documentation relevant to Finding 2, Finding 4, and Finding 5. Based on our review of the information provided, total allowable costs increased by \$49,038, from \$951,671 to \$1,000,709. For FY 2009-10, the additional information provided by the district resulted in allowable costs exceeding costs claimed by \$23,845. However, pursuant to Government Code section 17568, we limited total allowable costs for that year to total claimed costs (see footnote 3 in Schedule 1 for more information). This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the San Mateo County Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

April 17, 2014

Schedule 1— Summary of Program Costs July 1, 2007, through June 30, 2011

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 794,156	\$ 794,156	\$ —	
Services and supplies	122,103	113,619	(8,484)	Finding 2
Total direct costs	916,259	907,775	(8,484)	
Indirect costs	274,878	338,152	63,274	Finding 3
Total direct and indirect costs	1,191,137	1,245,927	54,790	
Less authorized health service fees	(826,519)	(993,306)	(166,787)	Finding 4
Less offsetting savings/reimbursements	—	(21,752)	(21,752)	Finding 5
Subtotal	364,618	230,869	(133,749)	
Less late filing penalty ²	—	(10,000)	(10,000)	
Total program costs	<u>\$ 364,618</u>	220,869	<u>\$ (143,749)</u>	
Less amount paid by the State		(26,350)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 194,519</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Salaries and benefits	\$ 874,920	\$ 874,920	\$ —	
Services and supplies	116,574	107,379	(9,195)	Finding 2
Total direct costs	991,494	982,299	(9,195)	
Indirect costs	297,448	339,994	42,546	Finding 3
Total direct and indirect costs	1,288,942	1,322,293	33,351	
Less authorized health service fees	(908,553)	(1,114,457)	(205,904)	Finding 4
Less offsetting savings/reimbursements	—	(28,945)	(28,945)	Finding 5
Total program costs	<u>\$ 380,389</u>	178,891	<u>\$ (201,498)</u>	
Less amount paid by the State		(380,389)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (201,498)</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Salaries and benefits	\$ 917,014	\$ 917,014	\$ —	
Services and supplies	59,470	120,483	(38,987)	Finding 2
Total direct costs	1,076,484	1,037,497	(38,987)	
Indirect costs	380,561	412,381	31,820	Finding 3
Total direct and indirect costs	1,457,045	1,449,878	(7,167)	
Less authorized health service fees	(1,216,456)	(1,156,557)	59,899	Finding 4
Less offsetting savings/reimbursements	—	(28,887)	(28,887)	Finding 5
Subtotal	240,589	264,434	23,845	
Less allowable costs that exceed costs claimed ²	—	(23,845)	(23,845)	
Less late filing penalty ³	—	(10,000)	(10,000)	
Total program costs	<u>\$ 240,589</u>	230,589	<u>\$ (10,000)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 230,589</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Salaries and benefits	\$ 962,451	\$ 836,836	\$ (125,615)	Finding 1
Services and supplies	204,000	141,891	(62,109)	Finding 2
Total direct costs	1,166,451	978,727	(187,724)	
Indirect costs	451,197	469,967	18,770	Finding 3
Total direct and indirect costs	1,617,648	1,448,694	(168,954)	
Less authorized health service fees	(1,055,234)	(1,046,094)	9,140	
Less offsetting savings/reimbursements	—	(32,240)	(32,240)	Finding 5
Total program costs	\$ 562,414	370,360	\$ (192,054)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 370,360		
<u>Summary: July 1, 2007, through June 30, 2011</u>				
Direct costs:				
Salaries and benefits	\$ 3,548,541	\$ 3,422,926	\$ (125,615)	
Services and supplies	602,147	483,392	(118,775)	
Total direct costs	4,150,688	3,906,298	(244,390)	
Indirect costs	1,404,084	1,560,494	156,410	
Total direct and indirect costs	5,554,772	5,466,792	(87,980)	
Less authorized health service fees	(4,006,762)	(4,310,414)	(303,652)	
Less offsetting savings/reimbursements	—	(111,824)	(111,824)	
Subtotal	1,548,010	1,044,554	(503,456)	
Less allowable costs that exceed costs claimed ²	—	(23,845)	(23,845)	
Less late filing penalty ³	—	(20,000)	(20,000)	
Total program costs	\$ 1,548,010	1,000,709	\$ (547,301)	
Less amount paid by the State		(406,739)		
Allowable costs claimed in excess of (less than) amount paid		\$ 593,970		

¹ See the Findings and Recommendations section.

² Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for fiscal year (FY) 2009-10.

³ The district filed its FY 2007-08 and FY 2009-10 annual reimbursement claims after the due dates specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty for each fiscal year equal to 10% of allowable costs, not to exceed \$10,000 (for claims filed on or after August 24, 2007).

Findings and Recommendations

FINDING 1— Salaries and benefits

The district claimed unallowable salaries and benefits totaling \$125,615 in fiscal year (FY) 2010-11. The costs are unallowable because the district claimed unsupported and overstated costs.

The following table summarizes the audit adjustment:

Fiscal Year 2010-11	
Salaries and Benefits	Amount
<u>General Ledger balances:</u>	
Fund 39030	\$ 782,413
Fund 10004	55,951
Fund 18000	509
Subtotal - General Ledger	838,873
Fund 39030 - overstated costs	(2,037)
Total allowable costs	836,836
Claimed costs	(962,451)
Audit adjustment	<u>\$ (125,615)</u>

The district's general ledger did not support costs claimed totaling \$123,578. District representatives acknowledged that salaries and benefits claimed for FY 2010-11 within Fund 10004 were overstated by \$164,403. However, we found additional mandate-related costs within Fund 10004 totaling \$40,825.

During our review of documentation provided by the district to support salaries and benefits, we noted claimed costs totaling \$10,330 for two district employees whose timesheet documentation supported only \$8,293. This equates to overstated costs totaling \$2,037.

The parameters and guidelines (section V – Reimbursable Costs) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

The parameters and guidelines (section VI.B.1-Claim Preparation-Claimed Costs-Employees Salaries and Benefits) state:

Identify the employee, (s) [sic], show the classification of the employee, (s), [sic] involved, describe the mandated functions performed and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The average number of hours devoted to each function may be claimed if supported by a documented time study.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim only those mandate-related costs that are supported by its accounting records and source documents.

District's Response

The draft audit report states that the District claimed unallowable salaries and benefits totaling \$125,615 for one-year. The FY 2010-11 annual claim included costs of \$123,578 from funds other than the fund for the general ledger expense accounts for the student health centers. Fund 10004 expenses were included in the claim when only \$40,825 in cost was applicable to the mandate. As a separate finding, \$10,330 was claimed for two employees whose timesheets support only \$8,293. The District agrees with these adjustments at this time.

SCO's Comments

The district agreed with the finding.

FINDING 2— Services and supplies

The district claimed unallowable services and supplies totaling \$118,775. The costs are unallowable for the following reasons:

- The district claimed bad debt expenses totaling \$95,451. The bad debt expenses are related to uncollectible student health service fees. The parameters and guidelines require that districts deduct authorized health service fees from health service expenditures claimed. Actual health service fees collected, along with uncollectible health service fees, are not relevant to the district's mandated cost claim.
- The district claimed non-reimbursable costs totaling \$23,324. The district claimed costs for food provided during committee meetings and student health fairs. The district also claimed costs to purchase decorations and various promotional items (e.g., hand towels, surfboard key chains, pens, and jump ropes), and to rent a popcorn cart and pretzel machine.

Government Code section 17514 states that "costs mandated by the state" means any increased cost that the district is *required* to incur. The costs for food and promotional items are not costs that the district is required to incur to maintain health services at the level provided in the FY 1986-87 base year. Government Code section 17561, subdivision (d)(2)(B), states that the Controller may reduce any excessive or unreasonable claim.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2007-08	2008-09	2009-10	2010-11	
Bad debt expense	\$ —	\$ —	\$ (37,913)	\$ (57,538)	\$ (95,451)
Food, decorations, promotional items, rentals	(8,484)	(9,195)	(1,074)	(4,571)	(23,324)
Audit adjustment	<u>\$ (8,484)</u>	<u>\$ (9,195)</u>	<u>\$ (38,987)</u>	<u>\$ (62,109)</u>	<u>\$ (118,775)</u>

The program's parameters and guidelines (section V-Reimbursable Costs) require claimed costs to be supported by source documents that were created at or near the time the actual cost was incurred for the event or activity in question. (See Finding 1 for the specific language).

The program's parameters and guidelines (section V-Reimbursable Costs) also state:

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities. . . . Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate. . . .

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim only those services and supplies that are supported by its accounting records and source documents, reimbursable under the mandated program, and required to maintain health services at the level provided in FY 1986-87.

District's Response

The draft audit report disallows \$131,969 of services and supplies costs. This adjustment includes \$95,451 in bad debt expense, \$23,279 in health fair and related promotional expenses, and \$13,239 in undocumented supply expenses.

Bad Debt Expense: As a matter of generally accepted accounting principles, the District reported its gross student health service fee income as revenue and also its uncollected amounts as an expense, an appropriate application of accrual accounting. However, the audit adjustment is correct as a result of the Clovis court decision in September 2010 and a Commission on State Mandates decision in October 2011, (discussed in Finding 5). Bad debt expense is no longer relevant to the calculation of the net reimbursable costs.

Health Fair Expenses: The Controller asserts that cost to purchase food for health fair exhibitors, promotional items, rental for a popcorn cart, etc., are unallowable costs, because these are not expenditures districts are required to make in order to maintain the base-year level of student health services. This conclusion directly contradicts the parameters and guidelines which include health fairs as reimbursable activities in Section V. Since the parameters and guidelines allow reimbursement

for the health fair activities, the costs associated with the activity cannot be unreasonable per se. The audit report makes no factual claims to support the adjustment on the grounds that the claimed costs were excessive. Because there is no question that the health fair activity is appropriate, and no evidence that the costs were excessive, the adjustment should be withdrawn.

Undocumented Costs: At the time of the exit conference, the District had not yet provided supporting documentation for various supply costs of \$13,239. The supporting documentation has since been e-mailed to the auditor. The auditor responded that the information will be reviewed and any changes in the allowable costs will be made in the final audit report.

SCO's Comments

We decreased the audit adjustment by \$13,194, from \$131,969 to \$118,775, based on supporting documentation provided by the district subsequent to the audit exit conference. We also updated the recommendation to note that the district elected to participate in the block grant program in lieu of filing annual mandated cost claims, commencing in FY 2012-13.

In its response to the draft audit report, the district accepts the audit adjustment for claimed bad debt expenses, objects to the finding related to the costs incurred for promotional items at health fairs, and notes that additional documentation was submitted by the district to support costs classified as unsupported. We will provide our comments in the same order that they were presented by the district.

Bad Debt Expense

The district agrees that the audit adjustment of \$95,451 for bad debt expense is correct.

Health Fair Expenses

Based on supporting documentation provided by the district for unsupported services and supplies costs, we increased the audit adjustment for unallowable health fair expenses by \$45, from \$23,279 to \$23,324. The \$45 amount was shipping charges for promotional items given away at district health fairs.

In its response to the draft audit report, the district states its belief that costs incurred for promotional items handed out to students at district health fairs should be reimbursable because (1) they are associated with the activity of providing a health fair and (2) the costs incurred were not excessive or unreasonable. Therefore, the district requests that the audit adjustment of \$23,279 be withdrawn.

In evaluating the audit adjustment, the district states, "This conclusion directly contradicts the parameters and guidelines which include health fairs as reimbursable activities in Section V. Since the parameters and guidelines allow reimbursement for the health fair activities, the costs associated with the activity cannot be unreasonable per se." We disagree.

The district's comment ignores the requirements of Government Code sections 17514 and 17561. The costs are not mandate-reimbursable simply because the district states that the costs are "associated with" a reimbursable activity. Government Code section 17514 defines "costs mandated by the state" as costs that a local agency or school district is *required* to incur. Although an activity might be mandate-related, that alone does not classify any related costs as required costs. Similarly, Government Code section 17561, subdivision (d)(2)(B) states that the SCO may reduce any excessive or unreasonable claim. The subject costs are unnecessary to perform a reimbursable activity; therefore, they are not reimbursable under the mandated program.

The district states, "The audit report makes no factual claims to support the adjustment on the grounds that the claimed costs were excessive. Because there is no question that the health fair activity is appropriate and no evidence that the costs were excessive, the adjustment should be withdrawn." We disagree. The applicable reimbursable activity is "Health Talks or Fairs - Information." The wording in the parameters and guidelines indicates that providing information to students is the reimbursable activity, not marketing materials designed to promote attendance at health talks or fairs. Neither statutory language nor the parameters and guidelines *require* students to attend health fairs. Similarly, neither statutory language nor the parameters and guidelines require the district to "promote attendance." The district is simply required to conduct a health fair and provide health information to students who inquire.

Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district's records to verify actual mandate-related costs and reduce any claim that the SCO determines is excessive or unreasonable. The district's response infers that the costs claimed are not excessive because the audit report does not specifically state that the unallowable costs were excessive. However, to the extent that the district claimed costs that are not reimbursable under the mandated program, the costs claimed are excessive.

Undocumented Costs

Based on supporting documentation provided by the district, we eliminated the audit adjustment related to unsupported services and supplies costs. However, as noted above, we re-classified \$45 previously classified as unsupported to unallowable costs.

In an email dated February 25, 2014, the district's Chief Financial Officer provided supporting documentation for the costs classified as unsupported costs in the draft audit report. We reviewed this information and determined that it adequately supported claimed costs totaling \$13,194. One invoice, in the amount of \$45, was re-classified as unallowable costs for FY 2009-10. This invoice documented freight charges for promotional items (stress balls) given away to students at district health fairs.

**FINDING 3—
Indirect costs**

The district understated indirect costs by \$156,410 during the audit period.

For FY 2007-08 and FY 2008-09, the district claimed indirect costs based on a federally approved rate of 30%. However, the parameters and guidelines and the SCO's claiming instructions for the Health Fee Elimination Program do not provide an option for the district to use a federally approved rate.

For FY 2009-10 and FY 2010-11, the district claimed indirect costs based on indirect cost rates prepared using the SCO's FAM-29C methodology. However, the district did not allocate direct and indirect costs in accordance with the SCO's claiming instructions. The district incorrectly identified community relations costs (account 6710) as indirect costs. In addition, the district calculated each fiscal year's indirect cost rate based on actual costs reported in the district's California Community Colleges Annual Financial Budget Report-Expenditures by Activity Report (CCFS-311) from the preceding fiscal year rather than using the report for the current fiscal year.

For each fiscal year of the audit period, we re-calculated allowable indirect cost rates using the SCO's FAM-29C methodology and actual costs from the district's CCFS-311 report for the current fiscal year.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2007-08	2008-09	2009-10	2010-11	
Allowable salaries and benefits	\$ 794,156	\$ 874,920	\$ 917,014	\$ 836,836	
Allowable indirect cost rate	x 42.58%	x 38.86%	x 44.97%	x 56.16%	
Allowable indirect costs	338,152	339,994	412,381	469,967	
Indirect costs claimed	(274,878)	(297,448)	(380,561)	(451,197)	
Audit adjustment	\$ 63,274	\$ 42,546	\$ 31,820	\$ 18,770	\$ 156,410

The parameters and guidelines (section VI.B.3-Claim Preparation-Claimed Costs-Allowable Overhead Cost) state:

Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.

For all fiscal years of the audit period, the SCO's claiming instructions for the Health Fee Elimination Program required the district to claim indirect costs using the SCO's FAM-29C methodology.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim indirect costs using indirect cost rates computed in accordance with the FAM-29C methodology specified in the SCO's claiming instructions.

District's Response

The audit report states that the district understated indirect costs by \$156,410.

Fiscal Year	Claimed Indirect Rate	Claimed Rate Applied to	Audited Rate	Difference
2007-08	30.00% Federal rate	All costs	42.58%	12.58%
2008-09	30.00% Federal rate	All costs	38.86%	8.86%
2009-10	41.50% FAM 29C	Salaries and benefits only	44.97%	3.47%
2010-11	46.88% FAM 29C	Salaries and benefits only	56.16%	9.28%

For FY 2007-08 and FY 2008-09, the District claimed indirect costs based on a federally approved rate of 30%. The Controller asserts that the parameters and guidelines, which are actually silent on the matter, do not allow the claimants to use a federally approved rate for the Health Fee Elimination Program. The auditor substituted a higher rate using the claiming instructions FAM-29C method. Until FY 2004-05, the Controller allowed districts to use the federal rate. Claimants became aware of this policy change later as a result of other audits, but it is retroactive in effect. This is a statewide appeal issue which the District will not pursue at this time.

For FY 2009-10 and FY 2010-11, the District prepared indirect cost rates using the SCO's FAM-29C methodology, as did the auditor. Minor differences result from different choices in how direct costs are applied and because the District rates were based on the prior year CCFS-311. The Controller uses the current year CCFS-311 and CPA-audited financial statement depreciation expense, both of which may not be available to claimants at the time of claim preparation. The need to use the prior year CCFS-311 and prior year depreciation costs is a statewide audit issue which the District will not pursue at this time

SCO's Comments

The finding remains unchanged. We updated the recommendation to note that the district elected to participate in the block grant program in lieu of filing annual mandated cost claims, commencing in FY 2012-13.

In its response to the draft audit report, the district does not express agreement or disagreement with the audit finding, but references two "statewide appeal issues" related to indirect costs. The first issue relates to a change in the SCO's Claiming Instructions in which the option of using a federally approved indirect cost rate, based on the provisions of OMB A-21, was eliminated for the Health Fee Elimination Program effective with claims filed for FY 2005-06 and beyond. The second issue relates to the use of prior-year financial information to prepare current-year indirect cost rates. We will address these issues in the same order as they were presented by the district.

Indirect Cost Options

The district states that the parameters and guidelines are "silent on the matter" regarding the district's use of a federally approved indirect cost rate for FY 2007-08 and FY 2008-09. We disagree. The parameters and guidelines, (Section VI.B.3 – Claim Preparation – Actual Cost of Claim Year... - Allowable Overhead Cost) state that "Indirect costs may be

claimed in the manner described by the State Controller in his claiming instructions.” The claiming instructions applicable for the audit period specify that districts may use the FAM-29C methodology to claim indirect costs for the Health Fee Elimination Program.

The district states, “Until FY 2004-05, the Controller allowed districts to use the federal rate. Claimants became aware of this policy change later as a result of other audits, but it is retroactive in effect.” These statements are inaccurate. First, there was no “retroactive” application of allowable indirect cost rates. Included in the SCO’s December 2005 claiming instructions were instructions for claiming indirect costs within FY 2004-05 claims. These claiming instructions specify that districts may claim indirect costs using the Controller’s methodology (FAM-29C) unless the program’s parameters and guidelines specifically allow alternative methods. As noted above, the Health Fee Elimination Program’s parameters and guidelines state that districts may claim indirect costs “in the manner described by the State Controller in his claiming instructions.”

Also, it was the SCO’s claiming instructions that provided notice to claimants of the change in filing requirements rather than “as a result of other audits,” as the district suggests. The SCO’s claiming instructions for each fiscal year, commencing with FY 2004-05, did not include the option of using a federally approved rate to claim indirect costs for the Health Fee Elimination Program. The claiming instructions are provided by the Controller to assist claimants in the preparation of mandated cost claims and are available well in advance of the filing date for each year’s annual reimbursement claims.

Prior-Year CCFS-311 and Audited Financial Data

The district states that “The Controller uses the current year CCFS-311 and CPA-audited financial statement depreciation expense, both of which may not be available to claimants at the time of claim preparation.” We disagree. Title 5, *California Code of Regulations*, section 58305, subdivision (d), states, “On or before the 10th day of October, each district shall submit a copy of its adopted annual financial and budget report to the Chancellor.” For the audit period, mandated program cost claims were due the SCO on February 15 following the fiscal year in which the costs were incurred. In addition, Government Code section 17561, subdivision (d)(3), allows the district to submit an amended or late claim up to one year after the filing deadline specified in Government Code section 17560.

The following table shows the dates that the district submitted its CCFS-311 and Single Audit Reports to the CCCC:

<u>Fiscal Year</u>	<u>CCFS-311 Report</u>	<u>Single Audit Report</u>
2007-08	October 10, 2008	December 18, 2008
2008-09	October 23, 2009	December 8, 2009
2009-10	October 18, 2010	December 14, 2010
2010-11	October 22, 2011	December 15, 2011

Although the district submitted its CCFS-311 report late in each fiscal year, the current-year financial information was available well before the due date of the district's mandated cost claims for each fiscal year of the audit period. Therefore, the district's comments are not supported by factual information.

For the preparation of indirect cost rates, the district states in its response that "Minor differences result from different choices in how direct costs are applied." However, the SCO's claiming instructions do not provide "choices" in how direct costs are applied when preparing an indirect cost rate using the FAM-29C methodology. The district simply chose to allocate costs within the district's CCFS-311 report as direct and indirect using its own methodology rather than to follow the SCO's claiming instructions.

**FINDING 4—
Authorized health
service fees**

For the audit period, the district understated authorized health service fees by \$303,652 (understated by \$372,691 and overstated by \$69,039).

The district understated authorized health service fees for FY 2007-08 and FY 2008-09. The district reported actual receipts of student health fees rather than authorized fees. We also noted that the district did not charge a health services fee for those students who were enrolled in off-campus classes, Saturday/Sunday classes, distance learning courses, or the Concurrent Enrollment Program.

The district overstated authorized fees for FY 2009-10. The district calculated authorized fees by using student enrollment data that it obtained from the California Community Colleges Chancellor's Office's (CCCCO) DataMart management information system. However, enrollment figures from DataMart do not include all applicable enrollment categories and do not exclude duplicate entries for students who attend more than one of the district's colleges.

Mandated costs do not include costs that are reimbursable from authorized health service fees. Government Code section 17514 states that "costs mandated by the state" means any increased costs that a school district is required to incur. To the extent community college districts can charge a fee, they are not *required* to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; or (2) are attending a community college under an approved apprenticeship training program.

The CCCCCO identified the fees authorized by Education Code section 76355, subdivision (a). The following table summarizes the authorized fees:

Authorized Health Fee Rate		
Fiscal Year	Summer Session	Fall and Spring Semesters
2007-08	\$ 13	\$ 16
2008-09	14	17
2009-10	14	17

We obtained the applicable student enrollment data from the CCCCCO. The CCCCCO identified enrollment data from its Management Information System (MIS) based on student data that the district reported. The CCCCCO identified the district's enrollment based on MIS data element STD7, codes A through G. The CCCCCO eliminated any duplicate students based on their social security numbers. CCCCCO data element and code definitions are available at <http://www.cccco.edu/SystemOffice/Divisions/TechResearchInfo/MIS/DED/tabid/266/Default.aspx>. The district did not identify any students that it excluded from the health service fee pursuant to Education Code section 76355, subdivision (c)(1).

The following table shows the authorized health service fee calculation and audit adjustment:

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2007-08</u>				
Number of enrolled students	13,064	25,600	26,635	
Less number of apprenticeship program enrollees	(6)	(368)	(395)	
Subtotal	13,058	25,232	26,240	
Authorized student health fees	× \$(13)	× \$(16)	× \$(16)	
Authorized health service fees	<u>\$ (169,754)</u>	<u>\$ (403,712)</u>	<u>\$ (419,840)</u>	\$ (993,306)
Less authorized health service fees claimed				826,519
Audit adjustment, FY 2007-08				<u>(166,787)</u>
<u>Fiscal Year 2008-09</u>				
Number of enrolled students	13,927	26,363	28,486	
Less number of apprenticeship program enrollees	—	(394)	(368)	
Subtotal	13,927	25,969	28,118	
Authorized student health fees	× \$(14)	× \$(17)	× \$(17)	
Authorized health service fees	<u>\$ (194,978)</u>	<u>\$ (441,473)</u>	<u>\$ (478,006)</u>	(1,114,457)
Less authorized health service fees claimed				908,553
Audit adjustment, FY 2008-09				<u>(205,904)</u>

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2009-10</u>				
Number of enrolled students	15,853	27,841	27,748	
Less number of apprenticeship program enrollees	(2)	(314)	(296)	
Subtotal	15,851	27,527	27,452	
Authorized student health fees	× \$(14)	× \$(17)	× \$(17)	
Authorized health service fees	<u>\$ (221,914)</u>	<u>\$ (467,959)</u>	<u>\$ (466,684)</u>	(1,156,557)
Less authorized health service fees claimed				<u>1,216,456</u>
Audit adjustment, FY 2009-10				<u>59,899</u>
<u>Fiscal Year 2010-11</u>				
Number of enrolled students	13,132	25,452	25,806	
Less number of apprenticeship program enrollees	(2)	(284)	(252)	
Subtotal	13,130	25,168	25,554	
Authorized student health fees	× \$(14)	× \$(17)	× \$(17)	
Authorized health service fees	<u>\$ (183,820)</u>	<u>\$ (427,856)</u>	<u>\$ (434,418)</u>	(1,046,094)
Less authorized health service fees claimed				<u>1,055,234</u>
Audit adjustment, FY 2010-11				<u>9,140</u>
<u>Summary: FY 2007-08 through FY 2010-11</u>				
Authorized health service fees				(4,310,414)
Less authorized health service fees claimed				<u>4,006,762</u>
Total audit adjustment				<u>\$ (303,652)</u>

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district:

- Deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCCO data element STD7, codes A through G.
- Maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1).
- Waive the health service fee only for those students specified in Education Code section 76355, subdivision (c).

District's Response

The draft audit report states that student health service fee revenue amounts are understated by \$348,430 for the audit period. Student health services fees reduce claimable program costs. Previously, there were two methods to determine the revenue: either calculate the "authorized fees" based on enrollment multiplied by the highest student

health service fee that can be charged, which is the Controller's method, or report the actual net revenue collected, the method chosen by this and many other districts that is based on the generally accepted accounting principle of matching revenues to costs. This issue was litigated for many years. The Controller won this issue in the Clovis court decision that was final September 2010 and again in the Commission decision in October 2011 regarding the use of the Chancellor's MIS Data. Therefore, beginning with FY 2009-10 claims, the District started using the Controller's method. The court case also applies retroactively.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Audited</u>	<u>Adjustment</u>
FY 2007-08	\$826,519	\$1,005,592	\$179,073
FY 2008-09	\$908,553	\$1,127,411	\$218,858
FY 2009-10	\$1,216,456	\$1,166,955	<\$49,501>
FY 2010-11		No adjustment	
Total			\$348,430

<u>Fiscal Year</u>	<u>Claimed student health service fee revenue offset method</u>
FY 2007-08	Actual revenues per general ledger by college
FY 2008-09	Actual revenues per general ledger by college
FY 2009-10	Highest allowed fee (\$17/\$14) multiplied by enrollment
FY 2010-11	Highest allowed fee (\$17/\$14) multiplied by enrollment

<u>Fiscal Year</u>	<u>Claimed source of enrollment data</u>
FY 2007-08	District statistics by college
FY 2008-09	District statistics by college
FY 2009-10	Chancellor's MIS data mart "student headcount"
FY 2010-11	Controller's Attachment A: adjusted MIS data mart

For FY 2007-08 and FY 2008-09, the District reported actual student health service fees charged and bad debts rather than "authorized" student health service fees that could have been collected. The audit also increased the number students subject to the collection of the fee by adding those students who were enrolled in off-campus classes, Saturday/Sunday classes, distance learning courses, and the concurrent enrollment program. The Clovis court decision allows the Controller to include all students that could have been charged the fee, even where no charge was made.

For FY 2009-10, the District calculated authorized fees by using student enrollment data that it obtained from the Chancellor's Office's DataMart management information system. However, the auditor determined that the DataMart database did not include all applicable enrollment nor exclude duplicate entries for students who attend more than one of the District's colleges, and made those corrections.

For FY 2011-12, there is no adjustment. This the first year that the claiming instructions included Appendix A which provides the corrected DataMart MIS Data for each district, and the District used that data for the claim.

The changes stated in the draft audit report for this finding are not disputed at this time. However, based on discussion at the exit conference, it appears that apprentice students have been incorrectly included in the auditor's enrollment statistics. The supporting

documentation for the apprentice students has since been e-mailed to the auditor. The auditor responded that the information will be reviewed and any changes in will be made in the final audit report.

SCO's Comments

We decreased the audit adjustment by \$44,778, from \$348,430 to \$303,652, based on additional information provided by the district subsequent to the exit conference supporting the number of students enrolled in apprenticeship programs at the district during the years of the audit period. These students are not subject to a health fee pursuant to the provisions of Education Code section 76355, subdivision (c)(1). The table within the audit finding that documents the authorized health service fee calculation and audit adjustments contains the number of students that we subtracted from total enrolled students to compute the number of students subject to a health fee.

The revised audit finding now includes an adjustment for FY 2010-11, showing that authorized health fees were overstated by \$9,140. We also updated the recommendation to note that the district elected to participate in the block grant program in lieu of filing annual mandated cost claims, commencing in FY 2012-13.

The district stated in its response to the draft audit report that it is not disputing the audit finding at this time. The district also correctly noted that information supporting the number of students enrolled in an apprenticeship program during the audit period was emailed to the SCO subsequent to the audit exit conference.

FINDING 5— Offsetting savings and other reimbursements

The district understated offsetting savings and other reimbursements by \$111,824. The district did not report offsetting savings and other reimbursements for grant revenue and “other local income” that were documented within its accounting records. District representatives indicated that the “other local income” is attributable to fees that the district charged for various health services that it provided.

The following table summarizes the audit adjustment:

Account Title	Acct. No.	Fiscal Year				Total
		2007-08	2008-09	2009-10	2010-11	
EOA work study	8186	\$ —	\$ —	\$ (6,162)	\$ —	\$ (6,162)
Grants	8820	(5,500)	—	—	—	(5,500)
Other local income	8890	(16,252)	(28,945)	(22,725)	(32,240)	(100,162)
Audit adjustment		<u>\$ (21,752)</u>	<u>\$ (28,945)</u>	<u>\$ (28,887)</u>	<u>\$ (32,240)</u>	<u>\$ (111,824)</u>

The parameters and guidelines (section VIII-Offset Savings and Other Reimbursements) state:

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district report all mandate-related offsetting savings and other reimbursements on its mandated cost claims.

District's Response

The draft audit report states that the District understated offsetting savings reimbursements by \$126,735, attributable to student health services.

<u>Account Title</u>	<u>Acct. No.</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>Total</u>
EOA work study	8186	\$(4,440)	\$(4,176)	\$(6,162)	\$(6,295)	\$(21,073)
Kaiser grant	8820	(5,500)	—	—	—	(5,500)
Other local income	8890	<u>(16,252)</u>	<u>(28,945)</u>	<u>(22,725)</u>	<u>(32,240)</u>	<u>(100,162)</u>
Audit adjustment		\$(26,192)	\$(33,121)	\$(28,887)	\$(38,535)	\$(126,735)

The amounts involved are neither savings nor reimbursements, but program revenues and grant funding. Regardless of that distinction, the propriety of this adjustment depends on an accurate match of the revenues to expenses. The "other local income" from account 8890 and Kaiser grant from account 8820 are an appropriate match since the direct costs are included in the claim. However, the EOA work study income should not be an offset since the grant program costs were not included in the annual claims. The supporting documentation has since been e-mailed to the auditor. The auditor responded that the information will be reviewed and any changes in the claimed costs will be made in the final audit report.

SCO's Comments

We adjusted the audit finding downward by \$14,911, from \$126,735 to \$111,824, based on additional information provided by the district subsequent to the exit conference. The district was able to support that, except for FY 2009-10, revenues identified within account 8186 for EOA Work Study related to expenditures that were not included in the district's claims. However, the district did include the applicable expenditures in its claim for FY 2009-10.

We also updated the recommendation to note that the district elected to participate in the block grant program in lieu of filing annual mandated cost claims, commencing in FY 2012-13.

In its response to the draft audit report, the district stated that "the EOA work study income should not be an offset since the grant program costs were not included in the annual claims." In an email dated February 25, 2014, the district's Chief Financial Officer stated that the EOA work study income came from Fund #30005 and that only expenditures from

Fund #39030 were included in the district's claims for the audit period. He requested that we "should adjust \$21k income received, or else the same amount of expenditures should be added back to the claim."

However, our analysis of the direct costs included in the district's claims determined that the source of expenditures included Funds 10000, 10003, 10004, 14003, 14004, 16387, 18000, and 30005 during the audit period, in addition to expenditures from Fund 39030. However, we determined that expenditures from Fund 30005, totaling \$6,162, were only included in the district's claim for FY 2009-10. Therefore, we agreed with the district and removed the adjustment for offsetting reimbursements related to EOA work study for the other fiscal years of the audit period.

**FINDING 6—
Documentation of
health services
provided and
rendered**

The district did not properly report the level of health services provided (i.e., available) and did not sufficiently summarize the health services actually rendered during each fiscal year. This audit report does not identify any unallowable costs attributable to these issues.

On Form 1.1 or Form 1 of its mandated program claims, the district incorrectly reported the level of health services that it provided. The forms required the district to report whether it provided health services in the claim years that were less than, the same as, or more than the services that it provided in FY 1986-87. For each fiscal year, the district reported that it provided the same level of services that it provided in FY 1986-87. However, the district's health services records show that the district provided more services during the claim years than it provided in FY 1986-87. The additional services included pap smears and physical examinations. On Form 2 or Form 3 of its mandated program claims, the district did not report that it provided these services during the claim years. In addition, the district did not maintain records to document the actual time that employees spent and applicable materials and supplies costs associated with these additional services.

Further, the district did not sufficiently summarize the health services provided during each fiscal year. The district provided annual summary reports that were inconsistent among colleges and fiscal years. The summary reports did not identify services provided in a manner consistent with the level of detail provided in the parameters and guidelines. The summary reports either did not identify the services provided or identified various services provided using general, vague descriptions. For example, we noted the following:

- Skyline College, FY 2010-11: The summary report provided by the district noted that 3,702 students were seen, but the report did not specify the services provided to students. The summary report separately identified students treated for reportable accidents, tuberculosis tests, immunizations administered, and vision exams conducted. However, the report did not clarify whether those services were in addition to, or part of, services provided to the 3,702 students seen.

- Cañada College, FY 2010-11: The summary report provided by the district noted services provided only as “medical” or “TB/immunization.” The report did not specify the medical services provided and did not separately identify the immunizations provided.
- College of San Mateo, FY 2010-11: The summary report provided by the district identified 31 visits for “vaccines,” but did not identify immunizations provided. In addition, the report identified 62 visits as “follow-up,” without elaboration. The report identified 37 visits as “referrals,” but did not specify the type of referral.

The program’s parameters and guidelines (section V-Reimbursable Costs) state, “Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.” (See Finding 1 for the specific language.)

The parameters and guidelines (section V.B-Reimbursable Costs-Reimbursable Activities) identify reimbursable health services and state that the district will be reimbursed only for those services that it provided in FY 1986-87.

The parameters and guidelines (section VI.B.1-Claim Preparation-Claimed Costs-Employees Salaries and Benefits) state that salaries and benefits claimed should be supported in the following manner:

Identify the employee(s), show the classification of the employee(s) involved, describe the mandated functions performed and specify the actual number of hours devoted to each function...

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district:

- Properly report the level of health services provided (i.e., whether the district provided health services in the claim year that are less than, the same as, or more than the services that it provided in FY 1986-87).
- Properly report on Form 3 the specific health services that it provided during the claim years.
- Maintain health service records identifying actual services that it provided in the same manner that the parameters and guidelines and the SCO’s claim forms identify health services.
- Maintain records that document the actual time spent and applicable materials and supplies costs incurred that were associated with health services provided that exceed the services that it provided in FY 1986-87.

District's Response

The draft audit report states that the District did not properly report the level of health services available during the audit period and did not sufficiently summarize the health services actually rendered during each fiscal year. The District agrees that the claiming instructions require the claimant to list the services available in the current years as well as the base-year of 1986-87, in order to determine if there are excess services, and if so, then identify the cost of those excess services. However, the District does not agree with the audit report conclusion that the claimant must "sufficiently summarize the health services actually rendered during each fiscal year" in the form of detailed work load statistics "in a manner consistent with the level of detail provided in the parameters and guidelines." There is no requirement for cost accounting by type of service, unless the service is an excess service. However, no costs are associated with these findings.

SCO's Comments

We revised the language in the audit finding to replace the word "rendered" with the word "provided." We also updated the recommendation to note that the district elected to participate in the block grant program in lieu of filing annual mandated cost claims, commencing in FY 2012-13.

In its response to the draft audit report, the district states that "the claiming instructions require the claimant to list the services *available* in the current years as well as the base year of 1986-87, in order to determine if there are excess services, and if so, then identify the cost of those excess services" and states that it agrees with this requirement. In this statement, the district substitutes the word "available" for the word "provided" which we used in the recommendation. The distinction is irrelevant in this instance because we believe that "provided," as used in the parameters and guidelines, is synonymous with "available."

The district also states that it does not agree that it has to provide records supporting the extent that reimbursable health services were *actually rendered* during each fiscal year. However, our audit finding makes no such recommendation. We recommended that the district maintain records supporting actual services that it *provided* [emphasis added]. The word "rendered" appeared in the body of the audit finding in the draft audit report. For the final report, we replaced "rendered" with "provided."

Our recommendation is supported by the requirement in the parameters and guidelines that only actual costs incurred to implement the mandated activities may be claimed and such costs must be traceable and supported by source documents that show the validity of such costs. There is no statement in the audit finding recommending that the district employ cost accounting by type of service, as the district suggests in its response. However, if the district intends to file mandated cost claims for the Health Fee Elimination Program, it must maintain records sufficient in detail to disclose health services provided to students. Therefore, we are

stating in our recommendation that the district provide documentation supporting the actual services that it provided, as stated in its claims, instead of using generic descriptions such as “medical,” “TB/immunization,” or “follow-up.”

The audit finding and the four items included in our bulleted list of recommendations in this report also appeared previously in the audit report issued on September 23, 2009, for our audit of the district’s Health Fee Elimination Program claims for FY 2002-03 through FY 2006-07. In its response to the draft report for the previous audit, the district drew a distinction between “services available,” “services provided,” and “services offered.” However, all three terms are synonymous with one another. The district also argued that we did not provide any working papers to document the significance of the issue.

Regardless, the district did not implement our recommendation noted in that audit report

**OTHER ISSUE—
Public Records
Request**

The district’s response included a public records request. The district’s response and SCO’s comments are as follows:

District’s Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO’s Comments

The SCO responded to the district’s request in a separate letter dated March 10, 2014.

**Attachment—
District's Response to
Draft Audit Report**



**SAN MATEO COUNTY
COMMUNITY
COLLEGE DISTRICT**

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March 04, 2014

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Health Fee Elimination Program Audit #3
Annual Claim Fiscal Years: 2007-08 through 2010-11
San Mateo County Community College District

Dear Mr. Spano:

This letter is the response of the San Mateo County Community College District to the draft audit report for the above referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office, dated February 21, 2014, and received by the District by e-mail on February 26, 2014.

FINDING 1 Salaries and benefits

The draft audit report states that the District claimed unallowable salaries and benefits totaling \$125,615 for one-year. The FY 2010-11 annual claim included costs of \$123,578 from funds other than the fund for the general ledger expense accounts for the student health centers. Fund 10004 expenses were included in the claim when only \$40,825 in cost was applicable to the mandate. As a separate finding, \$10,330 was claimed for two employees whose timesheets support only \$8,293. The District agrees with these adjustments at this time.

FINDING 2 Services and supplies

The draft audit report disallows \$131,969 of services and supplies costs. This adjustment includes \$95,451 in bad debt expense, \$23,279 in health fair and related promotional expenses, and \$13,239 in undocumented supply expenses.

Bad Debt Expense: As a matter of generally accepted accounting principles, the District reported

its gross student health service fee income as revenue and also its uncollected amounts as an expense, an appropriate application of accrual accounting. However, the audit adjustment is correct as a result of the *Clovis* court decision in September 2010 and a Commission on State Mandates decision in October 2011, (discussed in Finding 5). Bad debt expense is no longer relevant to the calculation of the net reimbursable costs.

Health Fair Expenses: The Controller asserts that cost to purchase food for health fair exhibitors, promotional items, rental for a popcorn cart, etc., are unallowable costs, because these are not expenditures districts are required to make in order to maintain the base-year level of student health services. This conclusion directly contradicts the parameters and guidelines which include health fairs as reimbursable activities in Section V. Since the parameters and guidelines allow reimbursement for the health fair activities, the costs associated with the activity cannot be unreasonable per se. The audit report makes no factual claims to support the adjustment on the grounds that the claimed costs were excessive. Because there is no question that the health fair activity is appropriate, and no evidence that the costs were excessive, the adjustment should be withdrawn.

Undocumented Costs: At the time of the exit conference, the District had not yet provided supporting documentation for various supply costs of \$13,239. The supporting documentation has since been e-mailed to the auditor. The auditor responded that the information will be reviewed and any changes in the allowable costs will be made in the final audit report.

FINDING 3 Indirect costs

The audit report states that the district understated indirect costs by \$156,410.

<u>Fiscal Year</u>	<u>Claimed Indirect Rate</u>	<u>Claimed Rate Applied to</u>	<u>Audited Rate</u>	<u>Difference</u>
2007-08	30.00% Federal rate	All costs	42.58%	12.58%
2008-09	30.00% Federal rate	All costs	38.86%	8.86%
2009-10	41.50% FAM 29C	Salaries and benefits only	44.97%	3.47%
2010-11	46.88% FAM 29C	Salaries and benefits only	56.16%	9.28%

For FY 2007-08 and FY 2008-09, the District claimed indirect costs based on a federally approved rate of 30%. The Controller asserts that the parameters and guidelines, which are actually silent on the matter, do not allow the claimants to use a federally approved rate for the Health Fee Elimination Program. The auditor substituted a higher rate using the claiming instructions FAM-29C method. Until FY 2004-05, the Controller allowed districts to use the federal rate. Claimants became aware of this policy change later as a result of other audits, but it is retroactive in effect. This is a statewide appeal issue which the District will not pursue at this time.

For FY 2009-10 and FY 2010-11, the District prepared indirect cost rates using the SCO's FAM-29C methodology, as did the auditor. Minor differences result from different choices in how direct costs are applied and because the District rates were

based on the prior year CCFS-311. The Controller uses the current year CCFS-311 and CPA-audited financial statement depreciation expense, both of which may not be available to claimants at the time of claim preparation. The need to use the prior year CCFS-311 and prior year depreciation costs is a statewide audit issue which the District will not pursue at this time

FINDING 4 Authorized health service fees

The draft audit report states that student health service fee revenue amounts are understated by \$348,430 for the audit period. Student health services fees reduce claimable program costs. Previously, there were two methods to determine the revenue: either calculate the "authorized fees" based on enrollment multiplied by the highest student health service fee that can be charged, which is the Controller's method, or report the actual net revenue collected, the method chosen by this and many other districts that is based on the generally accepted accounting principle of matching revenues to costs. This issue was litigated for many years. The Controller won this issue in the *Clovis* court decision that was final September 2010 and again in the Commission decision in October 2011 regarding the use of the Chancellor's MIS Data. Therefore, beginning with FY 2009-10 claims, the District started using the Controller's method. The court case also applies retroactively.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Audited</u>	<u>Adjustment</u>
FY 2007-08	\$826,519	\$1,005,592	\$179,073
FY 2008-09	\$908,553	\$1,127,411	\$218,858
FY 2009-10	\$1,216,456	\$1,166,955	<\$ 49,501>
FY 2010-11		No adjustment	
Total			\$348,430

<u>Fiscal Year</u>	<u>Claimed student health service fee revenue offset method</u>
FY 2007-08	Actual revenues per general ledger by college
FY 2008-09	Actual revenues per general ledger by college
FY 2009-10	Highest allowed fee (\$17/\$14) multiplied by enrollment
FY 2010-11	Highest allowed fee (\$17/\$14) multiplied by enrollment

<u>Fiscal Year</u>	<u>Claimed source of enrollment data</u>
FY 2007-08	District statistics by college
FY 2008-09	District statistics by college
FY 2009-10	Chancellor's MIS data mart "student headcount."
FY 2010-11	Controller's Attachment A: adjusted MIS data mart.

For FY 2007-08 and FY 2008-09, the District reported actual student health service fees charged and bad debts rather than "authorized" student health service fees that could have been collected. The audit also increased the number students subject to the

collection of the fee by adding those students who were enrolled in off-campus classes, Saturday/Sunday classes, distance learning courses, and the concurrent enrollment program. The *Clovis* court decision allows the Controller to include all students that could have been charged the fee, even where no charge was made.

For FY 2009-10, the District calculated authorized fees by using student enrollment data that it obtained from the Chancellor's Office's DataMart management information system. However, the auditor determined that the DataMart database did not include all applicable enrollment nor exclude duplicate entries for students who attend more than one of the District's colleges, and made those corrections.

For FY 2011-12, there is no adjustment. This the first year that the claiming instructions included Appendix A which provides the corrected DataMart MIS Data for each district, and the District used that data for the claim.

The changes stated in the draft audit report for this finding are not disputed at this time. However, based on discussion at the exit conference, it appears that apprentice students have been incorrectly included in the auditor's enrollment statistics. The supporting documentation for the apprentice students has since been e-mailed to the auditor. The auditor responded that the information will be reviewed and any changes in will be made in the final audit report.

FINDING 5 Offsetting savings/reimbursements

The draft audit report states that the District understated offsetting savings reimbursements by \$126,735, attributable to student health services.

<u>Account Title</u>	<u>Acct. No.</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>Total</u>
EOA work study	8186	\$(4,440)	\$ (4,176)	\$ (6,162)	\$ (6,295)	
						\$(21,073)
Kaiser grant	8820	(5,500)	-	-	-	(5,500)
Other local income	8890	<u>(16,252)</u>	<u>(28,945)</u>	<u>(22,725)</u>	<u>(32,240 100,162)</u>	
Audit adjustment		\$(26,192)	\$ (33,121)	\$ (28,887)	\$ (38,535)	\$(126,73

The amounts involved are neither savings nor reimbursements, but program revenues and grant funding. Regardless of that distinction, the propriety of this adjustment depends on an accurate match of the revenues to expenses. The "other local income" from account 8890 and Kaiser grant from account 8820 are an appropriate match since the direct costs are included in the claim. However, the EOA work study income should not be an offset since the grant program costs were not included in the annual claims. The supporting documentation has since been e-mailed to the auditor. The auditor responded that the information will be reviewed and any changes in the claimed costs will be made in the final audit report.

FINDING 6 Documentation of health services provided

The draft audit report states that the District did not properly report the level of health services *available* during the audit period and did not sufficiently summarize the health services actually *rendered* during each fiscal year. The District agrees that the claiming instructions require the claimant to list the services *available* in the current years as well as the base-year of 1986-87, in order to determine if there are excess services, and if so, then identify the cost of those excess services. However, the District does not agree with the audit report conclusion that the claimant must "sufficiently summarize the health services *actually rendered* during each fiscal year" in the form of detailed work load statistics "in a manner consistent with the level of detail provided in the parameters and guidelines." There is no requirement for cost accounting by type of service, unless the service is an excess service. However, no costs are associated with these findings.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Kathy Blackwood, Executive Vice-Chancellor
San Mateo County Community College District

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